

Regional Energy

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

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Oil prices

Analyst

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Oil price risks skew higher as talks stall; dual blockade deepens

- US-Iran talks in deep stalemate; "dual blockade" entrenched around the Strait of Hormuz
- A 2Q26 deal is still our base case, but probability of a prolonged negotiation scenario is rising
- Our average base case Brent forecast for 2026 revised up to USD85-90/bbl (from USD80-85/bbl earlier) as normalisation timeline slips further
- Upstream & integrated oil plays could gain momentum as the situation deteriorates further into crisis territory

What's New

Mood shift much? When we published our [last note](#) a couple of weeks back, oil prices were in the USD90-95/bbl range and the mood in markets was one of cautious optimism. A two-week ceasefire was in place, a first round of US-Iran talks in Islamabad had occurred, and markets were beginning to price in a gradual de-escalation and phased reopening of the Strait of Hormuz by May. But we had asked the question – are we underpricing risks? Indeed, the market seems to have answered in the affirmative since then, with oil prices touching fresh highs of around USD120/bbl (Brent) as of writing.

The cautious optimism has been extinguished. After the first round of talks collapsed, the US responded by imposing a naval blockade of Iranian ports, creating what is now being described as a "dual blockade" – Iran controlling traffic through the Strait of Hormuz from one side, and the US Navy intercepting ships to and from Iranian ports from the other. A brief window of hope opened on April 17th when Iran's Foreign Minister announced the Strait was open to commercial shipping, sending oil prices down sharply by around 11%. But other factions within Iran seemed to disagree and the Strait remains effectively closed till date after the US refused to lift its blockade. As of writing, peace talks remain in stalemate, Iran's foreign

minister Araghchi has been in Moscow consulting Vladimir Putin, and Trump has cancelled plans to send his envoys Witkoff and Kushner to Pakistan for a second round of discussions. The ceasefire has been extended indefinitely, but without a set deadline and with neither side showing meaningful willingness to move on their core positions.

Talks timeline: from cheer to stalemate. The chronology below summarises the key developments in negotiations since the April 7th ceasefire. What it illustrates is not merely a lack of progress, but an active deterioration. The space between the two sides looks to have widened since the first meeting in Islamabad rather than having narrowed, and the addition of the US naval blockade has introduced a new variable that is now as much a source of friction as the nuclear issue itself.

Timeline of recent developments around US-Iran talks

Date	Development
Apr 7	Ceasefire declared to run for two weeks
Apr 8	Trump says US will work closely with Iran on tariffs and sanctions relief. Declares "no enrichment of uranium" as a US condition. JD Vance describes ceasefire as a "fragile truce".
Apr 11	US team (Vance, Witkoff, Kushner) arrives in Islamabad. Talks last 21 hours. Core sticking points: US demands zero enrichment for a decade and removal of enriched uranium from Iran; Iran demands security guarantees, war reparations, and sovereignty over the Strait.
Apr 12	Vance confirms no deal. Iran's lead negotiator Ghalibaf says the US failed to build trust. Iran's 5-point counter-proposal (security guarantees, reparations, end to strikes, sovereignty recognition) remains far from US demands.
Apr 13	US imposes naval blockade of Iranian ports and coastal areas. "Dual blockade" begins. Iran says any military vessels near the Strait breach the ceasefire.

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Apr 17	Iran announces Strait open to all commercial shipping during Lebanon ceasefire. Oil prices fall 11%. Trump says Strait is open but US blockade remains in force. Iran closes Strait again within 24 hours.
Apr 19	First vessel seized by US forces: Iranian-flagged tanker Touska seized by 31st Marine Expeditionary Unit and USS Spruance.
Apr 21	Trump extends ceasefire indefinitely, conditioning it on Iran submitting a new proposal. No deadline set. Trump says he is "in no rush".
Apr 25-27	Iran submits new proposal: reopen Hormuz, end the war, defer nuclear talks to a later stage. Trump cancels Witkoff/Kushner trip to Pakistan. Rubio pours cold water on Iran's sequencing proposal. Trump signals he will likely not accept it.
Apr 28-29	Araghchi in Moscow consulting Putin; revised Iranian proposal expected in coming days but no timeline. UAE announces OPEC exit effective May 1. Brent surpasses USD110/bbl. Talks effectively in stalemate.

Source: Press reports, DBS

Have negotiations moved to sequencing? Iran's latest proposal – reopen Hormuz first, settle the nuclear question later – is a tactically rational move for Tehran, as it would remove the US's principal leverage before the harder conversation begins. The US recognises this clearly. Secretary Rubio's immediate public rejection of the framing, and Trump's own signalling that he is unlikely to accept it, suggests the US views Iran's proposal less as a peace overture and more as an attempt to negotiate from a position of relative strength. Iran, for its part, faces genuine internal fragmentation: sources close to the mediation process have indicated that there is no consensus inside the Iranian leadership on what nuclear concessions should be placed on the table, in part because the new Supreme Leader Mojtaba Khamenei, whose location is being kept secret for security reasons, is difficult to communicate with and consult in real time.

Where each side stands – the US position. The US remains fixated on zero uranium enrichment (potentially time-limited to 20 years, with Iran reportedly countering with a five-year period), the physical removal of Iran's enriched uranium stockpile from Iranian territory, limits on Iran's ballistic missile programme, an end to Iran's support for proxy armed groups across the region, and the reopening of the Strait of Hormuz as a prerequisite to any sanctions relief. The US also retains the naval blockade as an explicit instrument of economic coercion. Trump has claimed that the blockade is costing Iran USD500 million per day, a figure that may or may not be accurate, but it signals that Washington views the economic pressure as key to the negotiations and has little incentive to lift it ahead of substantive nuclear concessions.

The domestic political dimension is also increasingly salient for the Trump administration. The national average US gasoline price has crossed USD4.20 per gallon, from around USD3.00 per gallon before the war, an increase of almost 40%. This is reaching politically sensitive thresholds, and it gives Trump an incentive to resolve the crisis as soon as possible. However, this runs counter to the maximalist negotiating position on the nuclear issue, which could take months to resolve if no concessions are given. To recall, the nuclear deal (JCPOA) under the Obama administration took approximately 18 months to negotiate from the initiation of serious talks to final agreement, and that deal involved far less ambitious demands from the US side than the current position.

The Iranian position. Iran's bargaining strategy has evolved since the start of the conflict. Initially relying on Hormuz closure as its primary leverage, Tehran is now trying to use the same card to secure a sequenced deal that would neutralise US leverage before nuclear terms are agreed. Iran's stated minimum conditions include an end to US and Israeli military attacks on Iranian territory and Iranian-allied forces in Lebanon and Iraq, formal security guarantees against future aggression, war reparations, and international recognition of Iranian sovereignty over the Strait of Hormuz. The last demand is of course, essentially a non-starter for the US and even most of the international community. On the nuclear side, Tehran's position is that its enrichment programme is civilian in nature, that Iran is a signatory to the Nuclear Non-Proliferation Treaty (NPT) and therefore has the right to enrich, and that uranium stockpiles will under no circumstances be transferred outside Iran.

The internal fragmentation of Iranian decision-making is a critical variable that markets may be missing. Multiple power centres and difficulty in real time communication means that any Iranian delegation at the negotiating table is operating with incomplete political authorisation. This makes it structurally difficult to make concessions on the spot, even when individual negotiators may see a path forward. Araghchi's visit to Moscow on April 28th suggests that Tehran is actively seeking external validation and potentially exploring whether Russia can play a more active mediating role, a development that would introduce further complexity given US-Russia tensions over Ukraine.

Iran's mines strategy is worth examining separately. Even if Iran's leadership decides to agree to a deal, the presence of mines in the Strait gives Tehran continued leverage; the mines cannot simply be declared removed, they must be physically cleared under verified conditions, and the US has acknowledged it cannot be certain all mines are located. This asymmetric uncertainty is a genuine tool for Iran in any post-deal negotiation about the pace and conditions of normalisation. It is not a factor that resolves quickly even with goodwill on both sides.

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What else has changed since our last note? The “dual blockade” has been more successful than we thought. The naval situation in and around the Strait of Hormuz has become significantly more complex since our last update. What began as Iran's unilateral closure of the waterway has evolved into a "dual blockade" – Iran controlling traffic through the Strait itself using a combination of IRGC warnings, vessel seizures, and sea mines, while the US Navy blockades Iranian ports and coastal areas in the Persian Gulf, the Gulf of Oman, and the Arabian Sea, preventing Iranian exports from reaching customers, especially crude oil exports.

The US blockade has been operationally more effective than we initially expected. Around 38 ships have been turned back as of April 27th, and the first Iranian-flagged vessel, the *Touska*, was seized by US forces on April 19th. However, the blockade is far from airtight; some ships have bypassed the blockade line in both directions, and Iran has found ways to obscure vessel transponder data to complicate enforcement.

The more consequential issue for our medium-term oil price outlook is what the mine-laying situation means for the timeline to full traffic normalisation. Pentagon officials have indicated that clearing the Strait of Hormuz of mines could take up to six months after the conflict formally ends, and that mine-clearing operations are unlikely to begin until a comprehensive deal is in place. Any residual mine risk is sufficient to prevent war-risk insurance markets from underwriting shipping through the Strait. Without this, commercial operators will not send vessels regardless of the political situation on the ground (read: ceasefire or even a deal). This means that even in our base scenario, the realistic timeline for full traffic normalisation has extended materially. We now think full normalisation of Strait of Hormuz traffic is realistically an end-2026 story rather than a next quarter story.

Revised oil price scenarios as US-Iran talks stall

Scenario	Remarks/ Assumptions	Impact (Trading range)
Base case (50%)	Deal is reached within 2Q. US-Iran talks to reach a deal within days or weeks and for the Strait to start gradually opening up in May/ June. Normalisation is gradual; could take months to return to steady, pre-crisis traffic levels in the Gulf. Production losses likely to persist for even longer. Demand destruction is shallower, propped up by inventory drawdowns.	Near Term: USD 90-110/bbl (falling below USD90/bbl range once deal is reached), spikes towards USD125/bbl possible Medium Term (post-resolution): Moderating to USD80/bbl by year end
Bear Case (30%)	Prolonged negotiation limbo. No immediate deal, indefinite ceasefire continues, negotiations stop start. Strait remains closed. Oil prices trend higher as real supply losses get more acute, with diminishing support from floating storage and strategic reserves. Eventually, the conflict becomes "normalised" in financial markets, leading to less volatility but a higher baseline. Declines in oil supplies balanced by demand destruction.	Near Term: USD 110-125/bbl, spikes towards USD150/bbl possible Medium Term (as shock wears off and demand destruction sets in): Moderating to around USD 90-100/bbl
Worst Case (20%)	Renewed escalation. Talks break down completely, ceasefire is revoked, US naval blockade tightens, crisis becomes a regional conflict. Iran targets Saudi and Fujairah pipelines, Red Sea (Bab el-Mandeb) routes at risk as well. Severe global oil supply disruptions, significant economic instability.	Near Term: USD125/bbl + Fears of oil prices reaching USD150-200/bbl could resurface

Source: DBS

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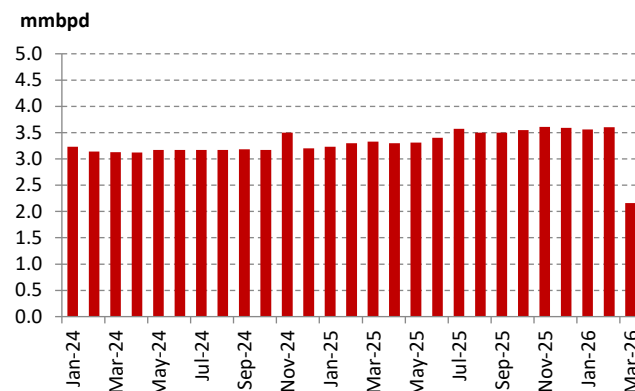
New wild card after the UAE exits OPEC. The April 28th announcement that the United Arab Emirates will withdraw from OPEC effective May 1st introduces a new structural variable into the post-crisis oil supply picture. The UAE is OPEC's third-largest producer, behind Saudi Arabia and Iraq, with production capacity of approximately 4.9 million barrels per day against a current OPEC quota that has constrained its output well below that level (UAE produced between 3.0-3.6mmbpd over the last two years). Crucially, it is also thus second only to Saudi Arabia in terms of spare production capacity, an important lever that OPEC has historically deployed to manage price shocks in its – albeit diminishing – role as swing producer.

In the near term, the UAE's exit has zero impact on supply. The Strait of Hormuz is effectively closed, and the UAE cannot meaningfully increase exports regardless of what its production quota says. Brent prices did not react meaningfully to the news, which is a sign of how completely the market is focused on the Hormuz situation rather than OPEC dynamics at this point. The UAE's energy minister acknowledged as much, noting that the timing of the exit was chosen precisely because the Hormuz closure would limit immediate market impact, especially – we reckon – in terms of oil price impact for fellow OPEC producers.

However, the medium and longer-term implications are structurally significant. The UAE has long felt suffocated under OPEC quota discipline. With its exit, the UAE is free to pursue its stated target of 5 million barrels per day by 2027, which it has been investing heavily to achieve through ADNOC's capacity expansion programme. When the Strait of Hormuz eventually reopens, the UAE's production ramp up creates a scenario in which the market transitions from acute shortage to significant surplus within a relatively short timeframe, albeit tempered by the availability of ships willing to risk the Strait.

The exit also has implications for OPEC's structural integrity as a price management mechanism. Saudi Arabia will retain significant spare capacity and the ability to discipline the market unilaterally, but its ability to manage OPEC as a coalition is weakened without the UAE. If the UAE's exit encourages other members who have been frustrated with quota compliance to consider similar moves, the group's cohesion could deteriorate further. The longer-term price implication of a structurally weaker OPEC is modestly bearish for the oil price floor, which reinforces our existing view that the long-term oil price sits in the USD65–70 per barrel range, despite current noise.

UAE recent oil production trends (and how it compares with theoretical capacity of c.5mmbpd)



Source: Bloomberg, DBS

So how high is the tail risk exactly? One of the most persistent assumptions embedded in current oil market pricing is what traders have informally termed the "TACO" assumption – a reference to the pattern observed across multiple confrontations in the Trump administration where maximum pressure rhetoric has ultimately given way to a pragmatic off-ramp. The oil market is currently pricing an extended version of this: ceasefire holds, negotiations grind on, Hormuz eventually reopens, situation resolves without catastrophe. This is also broadly our base case. But we want to be explicit about the scenarios in which it fails.

The domestic political arithmetic for Trump is becoming more complicated by the week. US gasoline at USD4.18 per gallon is not merely an economic statistic. It is a political liability that resonates with the core of Trump's electoral coalition. If Iran's revised proposal is not accepted and talks remain deadlocked through May and into June, with gasoline prices remaining elevated or rising further, the political cost of the status quo for Trump increases materially.

Is US military escalation a possibility? Imagine this scenario: frustrated by the negotiating stalemate and facing political pressure at home, Trump orders military action designed to force a rapid conclusion, most likely strikes on Iran's remaining energy infrastructure, including Kharg Island (which accounts for approximately 90% of Iran's crude oil export capacity) or on IRGC naval assets enforcing the Hormuz closure. The objective would be to break Iran's economic leverage in a single action rather than through prolonged blockade. This scenario would produce an immediate and violent spike in oil prices given the risk of Iranian retaliation against Saudi Aramco facilities and other Gulf energy infrastructure. Brent at USD130–150 or above is a realistic short-term outcome. We do not regard this as

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high probability, but the risk has risen given the stalemate and Trump's public frustration with the pace of talks.

The mine risk is also a scenario worth mentioning. We want to flag one additional tail risk that we believe is almost entirely absent from current market pricing – a mine incident on a commercial vessel during the ceasefire period. The Strait of Hormuz has reportedly been mined by Iran, and as we have mentioned earlier, it could take months to clear the waterway with reasonable certainty and even then, the risk cannot be zero. A single mine related accident on a major commercial tanker would cause an immediate and potentially prolonged suspension of commercial ship traffic, and a significant oil price spike. This is not a scenario we can quantify with confidence, but it carries a non-trivial probability and very large market impact in our opinion.

Oil price forecasts revised up again as timeline of normalisation of Strait of Hormuz traffic pushed back in our assumptions. In our base case, we now expect traffic to normalise more slowly over the next two quarters, once a deal – partial or final – is reached over the next couple of months or so. In case negotiations are extended even further, upside oil price risks are magnified. We now expect Brent to average between USD85-90/bbl in 2026 (up from USD80-85/bbl) and USD72-77/bbl in 2027 (up from USD65-70/bbl), despite fears of looser OPEC+

supply dynamics on the back of the UAE exit. The delayed opening of the Strait puts considerable pressure on global inventories, and hence oil prices are likely to stay elevated for longer than previously envisaged, even into 2027.

Thus, our overall view on regional oil and gas equities remains broadly constructive for upstream and integrated names, with more caution warranted on downstream-heavy and refining-exposed stocks. Upstream earnings and cash flows in 2026 are being significantly enhanced by the oil price uplift relative to what was embedded in consensus estimates at the start of the year, and this dynamic persists under both the base case and the prolonged stalemate scenario. Dividend visibility remains strong. Further share price upside is possible if the crisis proves more prolonged than the base case, which cannot be ruled out.

Oil major share prices peaked approximately four weeks into the conflict with gains of 15–20%, and have since given back some of those gains as ceasefire optimism has periodically surfaced. They remain up around 10% from pre-conflict levels. Given the revised scenario probabilities: lower probability of a quick deal, higher probability of extended stalemate, we think the case for further upside is supported and the case for a sharp dip is limited unless a surprise deal is announced, in which event some correction is possible, though not to pre-crisis levels.

Oil price forecast by quarter (2026/27) – base case scenario (revised)

(USD per barrel)	1Q26A	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F
Average Brent crude oil price	78.5	102.0	90.0	83.5	81.5	74.0	74.5	72.0
Average WTI crude oil price	72.5	97.0	86.0	80.5	78.5	71.0	71.5	69.0

Source: Bloomberg, DBS (forecasts)

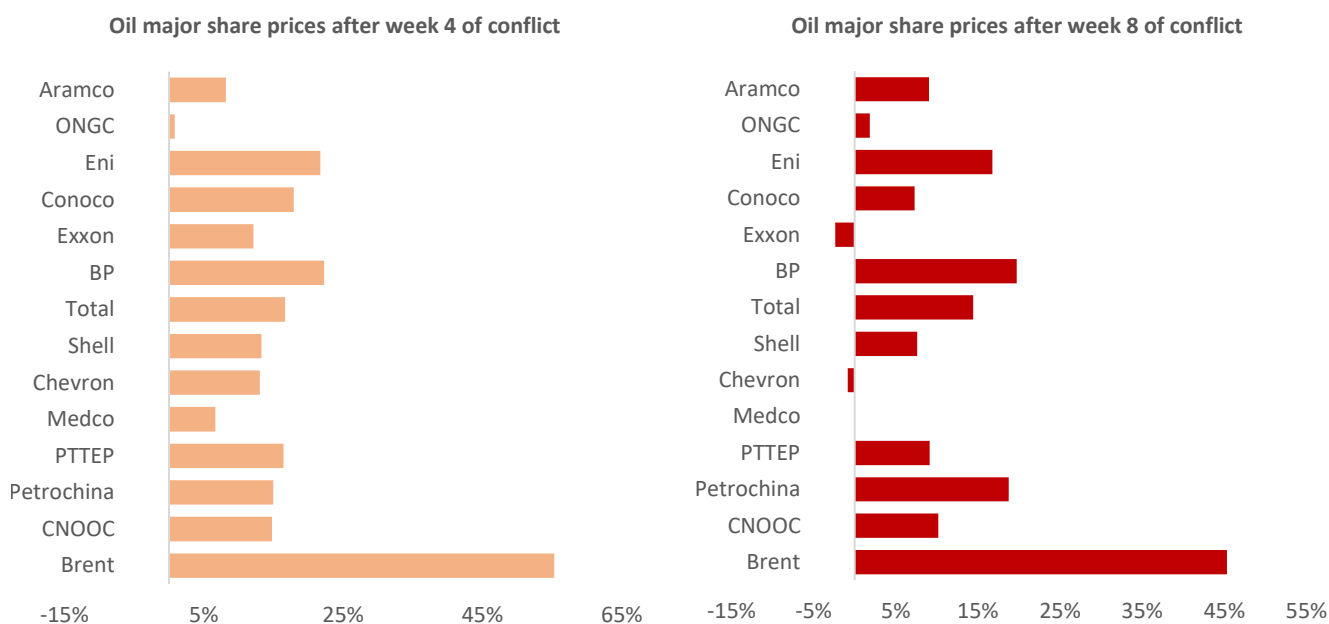
Brent crude oil price – DBS view (annual) – base case scenario (revised)

(USD per barrel)	2018	2019	2020	2021	2022	2023	2024	2025	2026F	2027F	Long term oil price forecast
Average Brent crude oil price	72	64	43	71	99	82	80	68	85-90	72-77	65-70

Source: Bloomberg, DBS (forecasts)

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Share prices of oil majors have not run ahead of fundamentals



Source: Bloomberg, DBS

What to watch from here?

- **Iran's revised proposal (expected within days):** The substance of Tehran's next offer will reveal whether there is any movement on the nuclear deal or whether Iran is simply repackaging their sequencing strategy. A proposal that includes even a nominal commitment on enrichment limits would represent a genuine step and would shift probability toward the quick-deal scenario.
- **Trump's response framing:** Whether Trump engages with the proposal substantively or dismisses it publicly will be the clearest signal of whether the administration prioritises a deal or escalation.
- **Lebanon ceasefire status:** Any deterioration in the Lebanon situation that draws Hezbollah back into active conflict would almost certainly cause Iran to close Hormuz again, even if it was considering partial reopening.
- **Russian involvement:** Araghchi's recent visit to Putin is significant. Russia has an interest in elevated oil prices but also in preventing a resolution that strengthens US credibility in the region. Whether Moscow plays constructive mediator or spoiler will be a key variable in the coming weeks.
- **Mine-sweeping progress:** Any credible reports of US mine-sweeping operations making meaningful progress, or lack thereof, would swing the market's timeline assessment for when the Strait becomes commercially insurable again.
- **US domestic gasoline prices:** If prices rise materially above USD4.50/gallon, the political calculus for the Trump administration shifts in ways that could accelerate either a face-saving deal or a military escalation designed to produce a rapid resolution (tail risk).
- **UAE production ramp guidance:** Post-OPEC exit, watch for ADNOC announcements on production capacity expansion and any guidance on when incremental UAE barrels could reach markets once Hormuz normalises. This will be a key input to post-crisis supply modelling and will inform our assessment of the bear scenario price floor.
- **Next OPEC meeting/ Voluntary-8 meeting.** The tone at the meetings after UAE exit will demonstrate whether Saudi can keep the flock together or there is less clarity in strategy going forward.

Source: DBS

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